

FDIC State Profile

Summer 2005

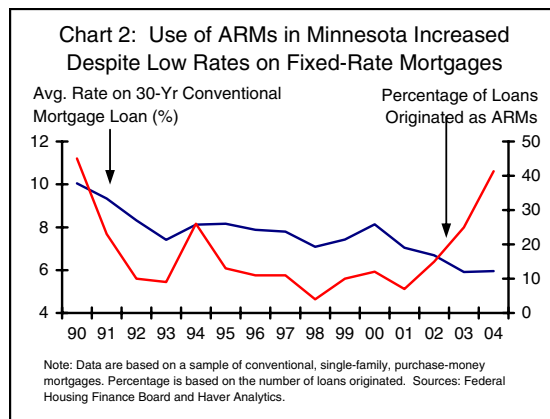
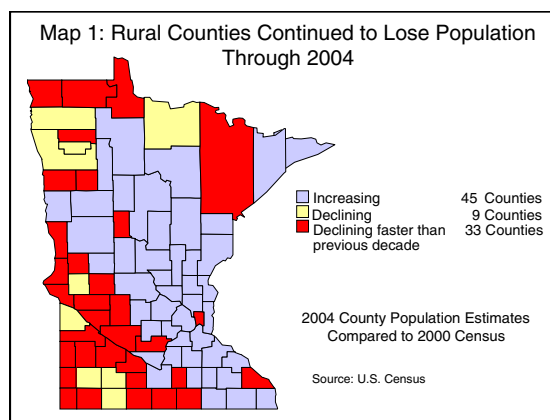
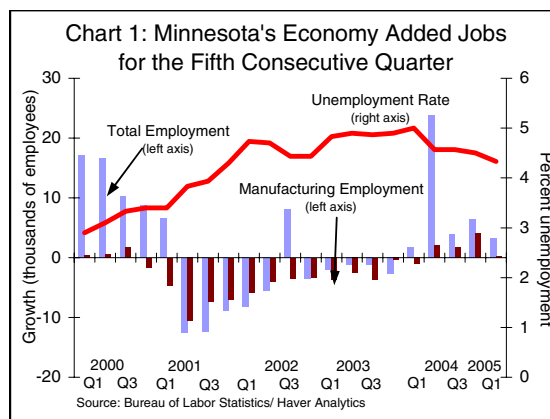
Minnesota

Minnesota's economic expansion continued in the first quarter of 2005.

- Minnesota's economy added 3,300 jobs in the first quarter, resulting in five consecutive quarters of growth. While the manufacturing sector added jobs for the fourth consecutive quarter, it has recovered fewer than 8,000 of the more than 58,000 jobs lost since the fourth quarter of 2000 (See Chart 1).
- The banking and real estate sectors contributed the most to job growth, while information-related industries such as telecommunications and Internet providers continued to shed jobs.
- The state's unemployment rate declined to 4.3 percent in the first quarter, compared with 5.0 percent a year ago. The improvement was broad-based, as **Minneapolis-St. Paul, Duluth, Rochester, and St. Cloud** all improved by at least half a percentage point over the past year.

Minnesota's rural counties have continued to lose population since the 2000 Census.

- According to the 2004 Estimates of County Population released by the Census Bureau in April 2005, Minnesota's population increased by nearly 37,000 people compared with the previous year. Metropolitan areas showed most of the increase, accounting for more than 80 percent of the added population.
- However, Minnesota's rural counties continued their trend of depopulation as 42 of the state's 87 counties lost population from 2000 to 2004. Because of the rural area contraction, Minnesota's population grew 3.7 percent, (22nd among all states) during that period.
- While recent rural population losses in rural counties are a continuation of a decades-long trend, depopulation is accelerating over parts of the state. Thirty-three counties lost population at a faster rate from 2000 to 2004 than from 1990 to 2000 (See Map 1). Most of these counties are among the most agriculturally dependent in the state.



State Profile

The popularity of adjustable-rate mortgages (ARMs) has increased despite low rates on fixed-rate mortgages.

- Consistent with the national trend, home purchasers in Minnesota have increasingly chosen ARMs despite historically low mortgage rates (See Chart 2).
- Should interest rates increase, some ARM holders may be vulnerable to rising debt service requirements.
- In the first quarter of 2005, almost half of Minnesota's institutions reported no outstanding closed-end residential ARMs in their loan portfolios. The median level of ARMs to capital for those institutions that reported ARMs was very moderate at 15 percent.

Although home prices appreciated significantly in many areas of the nation, Minnesota changes were more moderate.

- Home price appreciation in Minnesota averaged 9.1 percent for the year ending the first quarter of 2005, considerably less than the national rate of 12.5 percent (See Map 2). Home prices in the state's largest market, **Minneapolis-St. Paul**, grew 9.3 percent. Prices in **St. Cloud** and **Grand Forks** also grew faster than the state average, while **Duluth**, **Rochester**, **LaCrosse**, and **Fargo** lagged the state rate.
- Home prices in Minnesota have been growing faster than per capita income since the first quarter of 1999, though the level of home prices still remains quite affordable throughout the state.

Agricultural credit quality continues to improve at Minnesota's farm banks.

- On a year-over-year basis, agricultural loan delinquencies, which generally peak in the first quarter, remained near recent historical lows as Minnesota farmers benefited from strong production and prices, and high government support payments (See Chart 3). Nationally, the USDA estimates that 2004's net farm income was a record \$73.6 billion.
- Agricultural loan charge-offs also have been subdued over the past decade, with most farm banks reporting minimal net charge-offs.
- USDA forecasts, which indicate strong net farm income in 2005, suggest that agricultural loan problems should remain low at Iowa's farm banks this year. The USDA forecasts net farm income to reach \$64.4 billion during 2005, second only to 2004.

Improved net interest margins helped increase profitability.

- Annualized pretax return on assets (ROA), which remains historically strong, increased slightly from one year ago (See Table 1).
- Because of strong loan growth, first-quarter net interest margins improved, exceeding 4 percent for just the second time in the past five years. Loans to assets increased to 62.1 percent from 59.8 percent one year ago.
- Securities gains almost disappeared in the first quarter of 2005 as rising interest rates lowered securities valuations.

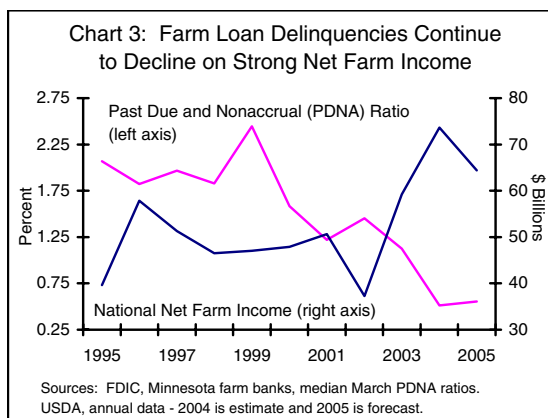
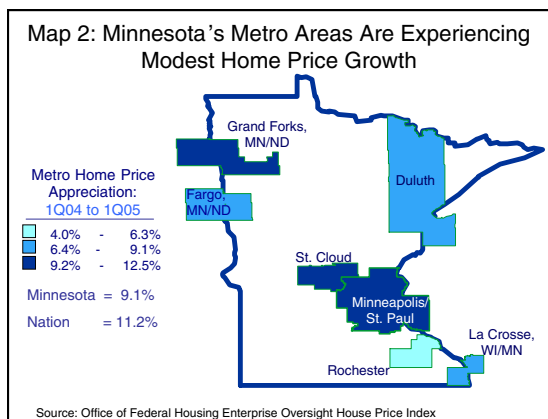


Table 1: Profitability, Driven By Net Interest Margin, Increased Slightly

Income statement contribution (as a percentage of average assets)			
	First Quarter (annualized)		Percentage Point Change
	2005	2004	
Net Interest Income	4.02	3.93	0.08
Noninterest Income	0.72	0.78	(0.07)
Noninterest Expense	2.95	3.01	(0.06)
Provision Expense	0.14	0.15	(0.01)
Security Gains & Losses	0.01	0.05	(0.04)
Net Income (ROA) Before Taxes	1.65	1.60	0.05

Source: FDIC, Minnesota small community institutions (total assets less than \$250 million), excluding denovo and specialty institutions.

Minnesota at a Glance

ECONOMIC INDICATORS (Change from year ago quarter, unless noted)

Employment Growth Rates	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Total Nonfarm (share of trailing four quarter employment in parentheses)	1.8%	-0.2%	-0.2%	-1.6%	1.5%
Manufacturing (13%)	2.6%	-2.2%	-4.0%	-7.9%	-1.0%
Other (non-manufacturing) Goods-Producing (5%)	1.4%	0.4%	-0.3%	-0.3%	4.3%
Private Service-Producing (67%)	1.9%	0.3%	0.6%	-1.0%	2.1%
Government (15%)	0.9%	-0.5%	0.1%	1.3%	0.9%
Unemployment Rate (% of labor force)	4.3	5.0	4.8	4.7	3.4

Other Indicators	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Personal Income	N/A	5.8%	2.8%	1.5%	5.3%
Single-Family Home Permits	-8.9%	0.9%	4.7%	3.2%	-12.9%
Multifamily Building Permits	-20.3%	-1.8%	-41.3%	106.1%	-35.4%
Existing Home Sales	4.1%	-4.3%	-4.4%	34.4%	-2.7%
Home Price Index	9.1%	8.4%	8.0%	9.4%	10.6%
Bankruptcy Filings per 1000 people (quarterly level)	0.95	0.88	1.09	0.97	0.96

BANKING TRENDS

General Information	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Institutions (#)	478	483	488	501	512
Total Assets (in millions)	63,896	60,437	108,198	110,237	184,128
New Institutions (# < 3 years)	15	15	14	17	20
Subchapter S Institutions	313	290	267	243	220

Asset Quality	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Past-Due and Nonaccrual Loans / Total Loans (median %)	1.59	1.72	2.18	2.20	2.18
ALLL/Total Loans (median %)	1.28	1.31	1.31	1.31	1.26
ALLL/Noncurrent Loans (median multiple)	2.32	1.75	1.55	1.52	1.88
Net Loan Losses / Total Loans (median %)	0.07	0.08	0.09	0.10	0.09

Capital / Earnings	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Tier 1 Leverage (median %)	9.30	9.09	8.93	8.84	8.94
Return on Assets (median %)	1.28	1.28	1.24	1.23	1.19
Pretax Return on Assets (median %)	1.63	1.60	1.61	1.63	1.62
Net Interest Margin (median %)	4.63	4.58	4.57	4.61	4.57
Yield on Earning Assets (median %)	7.25	7.18	7.37	7.56	7.89
Cost of Funding Earning Assets (median %)	2.68	2.66	2.80	3.00	3.35
Provisions to Avg. Assets (median %)	0.14	0.14	0.15	0.14	0.14
Noninterest Income to Avg. Assets (median %)	0.62	0.62	0.64	0.63	0.63
Overhead to Avg. Assets (median %)	3.15	3.15	3.12	3.10	3.10

Liquidity / Sensitivity	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Loans to Assets (median %)	70.1	67.5	65.8	65.6	67.1
Noncore Funding to Assets (median %)	15.6	13.5	12.2	12.3	12.2
Long-term Assets to Assets (median %, call filers)	10.9	12.1	11.7	11.1	10.8
Brokered Deposits (number of institutions)	185	140	129	133	130
Brokered Deposits to Assets (median % for those above)	4.2	3.8	3.4	2.5	2.8

Loan Concentrations (median % of Tier 1 Capital)	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Commercial and Industrial	118.4	117.8	121.0	120.3	123.8
Commercial Real Estate	189.4	157.8	139.9	129.1	116.1
Construction & Development	30.3	22.4	17.7	16.1	13.7
Multifamily Residential Real Estate	2.7	2.1	1.6	1.4	0.8
Nonresidential Real Estate	137.9	122.3	111.0	104.7	86.3
Residential Real Estate	161.0	154.8	156.1	156.5	157.7
Consumer	42.7	49.1	57.3	64.7	71.1
Agriculture	85.2	91.0	95.6	101.1	106.6

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits (\$ millions)	Asset Distribution	Institutions
Minneapolis-St. Paul-Bloomington, MN-WI	178	52,380	< \$250 million	438 (91.6%)
Fargo, ND-MN	25	3,059	\$250 million to \$1 billion	36 (7.5%)
Duluth, MN-WI	33	2,968	\$1 billion to \$10 billion	3 (0.6%)
St. Cloud, MN	34	2,817	> \$10 billion	1 (0.2%)
Rochester, MN	24	2,198		